

## **CITIZENS ADVICE RESPONSE TO HM TREASURY'S CONSULTATION ON ITS LONG TERM APPROACH TO FINANCIAL CAPABILITY**

The following responds to the questions raised in Chapter 5 of HM Treasury's January 2007 document.

Q1

### **Are there any missing policies or programmes, which the Government should consider?**

We welcome the comprehensive list. It might usefully be extended to recognise the needs of certain groups not explicitly identified. These include, for example, the elderly, migrant workers, those with learning disabilities, ex-offenders, the homeless, and people affected by domestic violence.

The extent of the list makes prioritisation important, and we would like to see particular attention paid to the needs of the more socially excluded. There could be opportunities to review a range of Government initiatives and policies designed to support vulnerable groups and the potential to add / extend work to promote their financial capability.

Q2

### **To what extent should the Government adopt all or part of a wider definition of financial capability?**

The experience of over 400 Citizens Advice Bureaux in England and Wales underlines the importance of recognising and addressing the full breadth of peoples' financial capability needs. The 1.4 million debt problems handled last year covered a wide range of issues; repaying consumer credit, meeting tax and utility bills, covering housing costs etc. Income and expenditure problems are inextricably related. Many debt problems were linked with a similar total number of benefits-related problems dealt with by bureaux.

Financial capability should be about effective money management. Citizens Advice is facing increasing numbers of people with debt crises, but wants to spend more effort helping people avoid such problems. The Treasury's long-term approach, the financial capability work of the FSA in recent years, both recognise that financial capability is a holistic need; involving work on prevention as well as cure. The Adult Financial Capability Framework, which covers a broad range of consumer issues, provides a useful overview. It indicates that knowledge of financial products and services is just one aspect of financial capability. Consumers also need to have the opportunity to develop skills, competence and responsibility in order to apply their knowledge effectively.

The breadth of the agenda, and the need for their own involvement in it, does not seem to have been recognised so clearly by some other interests. For example, business support for financial capability work has to date very much been led by the financial services industry. This is understandable and welcome. But it is significant that there has been very much less engagement by major retailers, and some service providers – many of whom are the front door to consumer credit and insurance products. Similarly whilst many bureaux have received substantial local authority support for debt advice work, very few have received such funding for local financial education activity.

Q3

**Which programmes have been particularly effective in raising levels of financial capability? What can the government learn from these, particularly for delivering education, information or advice to people who are most vulnerable to the consequences of poor financial skills?**

Citizens Advice, and the 400+ bureaux in England and Wales, have extensive experience in delivering advice, education and information, and in financial capability policy development. Surveys show that bureaux enjoy extremely high levels of trust as providers of advice in their communities. This includes financial advice, where debt enquiries have risen to nearly 1.5 million pa.

In policy development we welcome the work of the FSA over the last 4 years, and more recently that of the Treasury's Financial Inclusion Taskforce, in promoting a national financial capability agenda. Both have increased awareness of its importance within Government, business and the third sector.

A number of bureaux have been delivering financial education / literacy services in their local communities for over 5 years. Our most recent survey (Autumn 2006) shows that 86 bureaux are now engaged in such work. This represents about 20% of all bureaux, compared with the 100% providing some level of debt advice.

As part of the Prudential plc-funded "Financial Skills for Life" programme, 9 bureaux undertook pilot work with mainly socially excluded groups over the three year period up to 2006. An independent evaluation of the pilots provided evidence of genuine outcomes in terms of improved budgeting and borrowing performance by people who had attended financial capability sessions.

Prudential plc has extended its significant funding for a further three years, and the Financial Skills for Life programme has also benefited from support from Friends Provident Foundation and Abbey Charitable Trust.

But resources are the major limitation for bureaux wanting to do financial education work. Having a dedicated worker in every bureau would cost around £20m pa. We estimate that such an expansion would allow us to help one million 'hard to reach' people develop their financial capability skills each year.

The Long-term Approach recognises the Citizens Advice work with the FSA since 2005 in delivering financial capability education to those working with young adults not in education, employment or training. Feedback from participants attending the intensive one-day courses has been very positive. It has reinforced our view of the importance of such frontline workers having a basic understanding of e.g. budgeting, borrowing and banking issues – and the extent to which there is a knowledge gap. Reaching such workers does not make them experts. But it does leave them more confident in dealing with issues faced by their client groups, enabling them to be more aware of the options for addressing problems effectively.

The frontline worker strategy extends the reach of bureaux work. Such workers will typically have the chance to share their improved skills with several tens of clients every year. We have therefore extended this approach within the substantial Barclaycard-funded 3-year "Horizons" programme with lone parents groups; and in the current phase of our "Financial Skills for Life" project. We are also piloting HMRC-funded bureaux training for those working with elderly and migrant groups. Independent evaluations are being undertaken of all these programmes; the first of these will be complete by summer 2007.

Our work with frontline workers and different client groups confirms the importance of having and building close co-operative links with other local delivery agencies and partners. These include a range of both third and public sector organisations such as Credit Unions, Housing Associations, Sure Start etc groups, and most recently the new DWP awareness representatives. Bureaux typically have strong relationships with such groups in their communities.

We have sought to reinforce this in the case of financial capability work by sponsoring the formation of 14 new bureau-led regional and sub-regional groups covering all of England and Wales. These groups, based on a successful model developed in NW England, enable diverse interests to share best practice, and to identify and address priority needs in their areas. This is a new initiative and the groups will be subject to independent evaluation by end 2007. The strong and positive response already achieved indicates a need is being met which we hope can be funded beyond 2007.

We consider that pfeg – many of whose regional representatives have joined the regional groups - has played an important leadership role in promoting financial capability in schools. A 2005/6 survey undertaken with pfeg showed that nearly 50 bureaux were involved in such schools work, and that there is a real demand for such input. Based on this, we will shortly publish guidance on how bureaux can be most effective in schools. Whilst our prime focus is on socially excluded adults, we see opportunities for building on schools work. We are therefore supporting a current bureau development project involving extended schools activity; and are also interested in the possibility of promoting more work with parents groups in primary and junior schools.

Citizens Advice is currently working in partnership with ABCUL ( the Association of British Credit Unions ) to assist the development of closer working relationships locally between bureaux and credit unions. The development of this partnership will enable easy and early referrals for clients from the credit union who are struggling financially, and who might benefit from debt advice, and/or financial capability sessions, as well as wider generic advice from the bureaux. The bureaux will also be examining how a referral process to a credit union will work, and will test out the boundary issues regarding advice on access to credit union services such as savings and loans.

The overall aim of this partnership is to assist financially excluded individuals get access to debt advice and financial capability training as early as possible to prevent problems from developing or becoming intractable. In addition, the partnership will enable access to savings products and options for lower cost financial products for those who are either not able to access these products or who are caught in the trap of using high cost services. The role of financial capability in all this will be to ensure that clients better understand their finances, including budgeting, savings, the costs of accessing credit, thereby enabling them to make more informed decisions in the future about their finances.

Citizens Advice and ABCUL will be focusing on how these local partnerships can/should be funded, what the boundary issues are for both organisations such as maintaining independence of the advice partner, and ensuring responsible lending practices for the credit union, and exploring where there is natural affinity for closer working, such as financial capability work.

Q4

**What other information [ in addition to the FSA's baseline survey ] might policy makers need to inform further work in this [ financial capability ] area?**

The FSA baseline survey is a very important long-term project which needs to be complemented by more medium term ( 2-5 year ) evidence of the impact of financial capability work.

Citizens Advice, along with a number of other providers, is keen to evaluate the effectiveness of its work. It needs this to develop training strategies and materials; and to secure greater long-term involvement by both bureaux and funders. It would be desirable if all the leading players and funders in this area could collect and share evidence on broadly comparable bases. Ideally this should include data and further work which would allow a better and more confident understanding of the following:

- What are the issues on which particular client groups most need help ?
- What beneficial changes have been achieved by clients ? Are they sustained ?
- What are the wider and quantifiable social and financial benefits that have been secured ? e.g. What is the impact in terms of keeping people housed, in work, out of prison etc
- Honest assessments of what has failed, as well as the successes. This would allow a better understanding of what strategies should be deployed for accessing 'hard to reach' groups, and what agencies are best placed to do this.

Q5

**Is a central co-ordinating function needed in addition to the work of the [FSA] National Strategy and the proposed ministerial group? If so, what should it include?**

Citizens Advice would welcome a central capacity to enhance the ability of providers to:

- Share best practice in the effective delivery of financial capability services to client groups;
- Map the existing and planned resources and projects; and
- Identify and establish effective delivery and funding partnerships.

This capacity could build on the work of e.g. the new regional groups ( outlined at Q3 above ). It would need a small but strong research and information dissemination capability with clear official backing / ownership. It should be clear how it related to the roles of the secretariats of existing FSA and Treasury groups. Similarly, supervision of its work should aim to take advantage of existing structures – including perhaps the expert group which formerly prepared work for the FSA Steering Group.

Q6

**The Government welcomes views to inform its work alongside the Thoresen feasibility study, which will examine the practicalities of delivery. Comments would be welcome on, for example, the boundary of generic and regulated advice, the relationship with current sources of advice, and the development of funding models that recognise the benefits to all stakeholders.**

The boundary between generic and regulated advice has been considered by the FSA working group on GFA under their Financial Capability Strategy. We agree with its recommendations that any GFA should follow a consistent model, setting out information tailored to the individual circumstances, options for action with pros and cons, giving advice on such things as comparison sites, and information of further advice and how best to access it. This is a model consistent with good practice in advice giving, where the decision on further action, and in this case possible product purchase rests with the client. The GFA will have provided them with a better understanding of their options. The National Occupational Standards set out by the Financial Sector Skills Council provide a good basis for defining the boundary.

We believe that any new national GFA service should not stand in isolation from other existing provision around debt, tax credit and financial capability issues. People need a holistic service as they do not often present with easy one-off queries. A question about what to do about a short-fall in an endowment policy should provoke questions about the status of a client's mortgage and other savings, and a range of questions about their future plans and aspirations. It may also involve questions about any unmanageable debt, and income maximisation. If GFA is to provide the quality needed to improve the long-term financial health of large numbers of people, then it will need to take into account the wider needs individuals will bring and be able to cater seamlessly for these. This is why we believe dovetailing a GFA service into an existing network, such as the CAB service, will offer substantial benefits, with easy referrals into debt services and financial capability sessions as well as wider generic advice on housing, employment and family issues, which all impact on financial decisions.

There will need to be careful consideration of how such a service can be funded to ensure it is independent of both government and the financial services industry, while delivering benefits to both these major stakeholders.

The primary focus of any new service must be to improve the financial health of individuals, and only incidentally will this benefit the government through greater savings and fewer long-term benefit recipients, and the industry by better informed customers making appropriate purchases, with less risk to the provider.

We think both the government and the industry have much at stake here and should contribute to the establishment of a national GFA service. However, it may be that the concept has to be proved to the financial services industry, and that sustainable government investment will be the only way to establish such a service and evaluate its outcomes robustly. There is also a concern that industry involvement could compromise independence or impartiality, and this would need to be carefully managed.

Citizens Advice has a network of established community outlets for advice which we believe could be built on to provide a quality national GFA service at reasonable cost. There is potential for partnership with other across the sector, and with IFA bodies, employers and others to pull together expertise.

A funding model has already been illustrated by the Financial Inclusion Fund (FIF) which involved the DTI contracting with Citizens Advice whose central, regional and local infrastructure enabled the Project to be centrally led and managed by Citizens Advice with sub-contracting to suitable bureaux and partners as local delivery agencies. This model of funding has the benefit of simplicity for the funder, who contracts with just one organisation, but can hold that organisation accountable for the consistent delivery of the project in targeted communities. Furthermore, FIF demonstrates how partnership working can succeed – the training for the FIF advisers is provided by the Money Advice Trust.

In addition, Citizens Advice leads projects which involve working with both bureaux and independent advice agencies in regional communities. Also, there is a high degree of co-operation and partnership working between Citizens Advice (which leads 10 FIF funded projects) and the six Project Managers leading the independent advice sector FIF funded projects.

Governance of such a scheme would be provided by a Board of key stakeholders,

We will be providing the Thoreson Review with more details of how a CAB GFA service might work.